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Startup marketing strategy to attract venture capital at the age of digitalization

Abstract

The article deals with the current state of startup ecosystem, its constraints and incentives, comparisons with traditional business models. The authors pay attention to an issue of attracting venture capital to finance newborn projects in the modern world. The key problems of the startups are outlined in the paper, an important fact that the ecosystem is getting more competitive and the investors are getting more cautious. The paper summarizes the traditional marketing tools for strategy development and justifies the possibility of their use in building up a startup business model. The features of attracting venture investments are identified and the specifics of the venture investor-consumer are determined. The authors' approach to the creation of a venture capital investment strategy is proposed, and each stage is considered with appropriate management concepts and models. The choice of the most effective instrument for analyzing the macromarketing, micromarketing environment and internal environment of startup obviously depends on market location and type, industry, size of the company, resources, market type, life cycle of the market / product, etc. Many tools for marketing analysis in the modern theory and practice of marketing have been named with the aim to popularize. The paper also considers the influence of coronavirus epidemy of to attract money and figures out some basic information how to prevent such a situation. The key future threats of the market are named. The importance of marketing research in the age of digitization has been explained and proven.

Keywords

venture investment, marketing strategy, digitalization, market research, startup

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1 Research justification

Startup was the first step for many of the world's most valuable companies nowadays. New startups pop up every day globally, though for every successful startup, which can be called as "unicorn", there are thousands which failed to be feasible. According to the CBInsights research, among the TOP-20 reasons startup fail, the first one (42%) is no market need, then the second – ran out of cash (29%) [1]. That is why startup marketing strategy is of a current concern topic and marketing tools can change the perception of the venture investment process to interact more effectively with venture investors and generate exactly the information they need. Startups fail when they do not meet market challenges and unable to solve a market problem, it should be a big enough problem that can be solved with a scalable solution. Great technology, great data on behavior, great reputation as a though leader, great expertise, great advisors, are not enough to be market-fit, nowadays startups should have business model that solved a pain point in a scalable way. The success of companies depends not only on financial support, but also on quality marketing research, information resources, as well as material and manpower resources, all of which can be provided in a timely manner with the help of venture investments.

2 Purpose of the Research

The purpose of the article is to research, systematize and popularize comprehensive marketing strategy tools to optimize the process of developing a startup feasible strategy.

3 Main Material

Marketing strategy is a crucial element in the enterprise management system, the market dictates the rules in the conditions of constantly increasing competition, skyrocketing customer fastidiousness and the emergence of new forces that affect the company. The vast majority of strategy-making models emerged in the last 40-50 years and was initially focused on certain aspects of marketing. An exception - the AIDA model, which was created in the 1900s, all the others began to appear after Teodor Levitt's doctrine on the basic principles of marketing.

Scientists who were among the first to start studying marketing strategy issue and management concepts: M. Porter, I. Ansoff, A. Maslow, N. Kano, P. Kotler, C. Rogers, H. Mintzberg, L. Greiner, E. de Bono, D. Kahneman. All tools, like SWOT-analysis, only provide information in a specific context, so different analytical tools are needed to be used to create a marketing strategy. Depending on what the business model of the enterprise will be formed, which forms the necessary structure for the previously collected data, giving them an applied meaning.

Though, the majority of marketing strategy formulation process is focused on traditional production enterprise with a tradition toolkit of market analysis and product promotion, like 4P and 4C, but all this marketing instruments can also be adopted to such entities as startups easily, despite the fact they were developed in the previous century. The challenge is to stick to the point according to a startup business goals. The current state of development of the world economy implies the emergence of modern financial and organizational management tools for innovative enterprises or a suitable mix of instruments.

In the age of digitization with Big Data trending, you need to have the skills and tools that provide the information with the right form and vector within your marketing strategy. The main objective of the marketing strategy is to make products meet the consumer, satisfying the latter's needs, but profitably for the company. And models, in turn, are toolkits that allow you to structure approaches to finding solutions to the management problems that a startup faces.

“Venture” translates as “risky business”. Venture business is a special business model where funds are invested in dozens of companies, half of which are closed, some return investments and one can provide ten times the profit and another one can provide one hundred times the profit.

Venture investments can be made by both individual investors (for example, business angels) and institutional investors (venture capital funds) or units of investment banks, funds (pension and insurance), large corporations, and a new form of recent decades - crowdfunding. Such investments are attracted for 2.5 - 7.5 years, on average, and should give the subject influence on the management of the company and the right to financial control of the newly established or part of the already existing company that attracts venture investments. Preferably, such investment takes place in the early stages of development.

The specific of venture investing is that in addition to financial resources, other tangible and intangible resources can be invested, from know-how to investor experience and business relationships.

A venture investor specializes in investing in high-risk projects that are related to the innovation sector - startups. According to a study from Harvard Business School, a venture investor makes a profit in about one out of every four ventured-backed companies, others - failed. The rest of the projects either turn out to be completely unsuccessful for reasons already mentioned or only cover the costs. Due to the very high risk that the investor bears, financing conditions may seem too rigid for a startup, but they are completely justified, otherwise any sense of investing is lost.

An important characteristic of a project for venture investor is the willingness of the team, which is also self-sufficient, to launch the project without external funding, which is why the ability to formulate a marketing strategy is important. After all, the purpose of investing in innovative projects is to accelerate growth and achieve certain goals, but you cannot improve "0" by any percentage. For example, in a survey (one of the types of marketing research), many investors identified the existence of a Joint Venture Agreement between the founders as an important factor in deciding whether to invest in a particular startup (70% of respondents stated the importance of having this agreement) [1].

A business model of venture startup often has three obvious characteristics: firstly, this business model must have a high-quality unit economy, so the price of a product or service must far outweigh the cost; secondly, this business model must be scaleable quickly; thirdly, this business model should have "built-in" protection from competitors. It is easy to see that turnover, profit and therefore the value of such a startup will grow rapidly.

Such not a complicated concept, for example, explains why SaaS startups are so understandable to venture investors. They are profitable at the expense of practically zero marginal cost (services for each new client have minimal additional costs for the company), they are quickly scaled (due to lack of material assets - factories and steamers) and they are protected from competitors due to the need to cancel the subscription. So it's a powerful team, a huge market, a lack of competitors and a clear business model. For the first time, the term "startup" appeared in 1939 in the United States, almost all high-tech enterprises concentrated near San Francisco, the first such startups to be called Hewlett Packard. For the Western markets, startups is a complex company where every professional is in their place, and there is an innovative technology that can quickly respond to new consumer demands - more flexible.

Such a digital transformation is not the evolution of devices, though they will evolve, but the integration of intelligent data into everything we do. 94% of industry leaders systematically track the return on investment in automation, compared to only 47% of lagging companies [2]. Leaders are working to set up businesses by breaking the barriers between IT and other departments. For example, they might consider how improvements in sales and customer engagement technologies can be used to predict and hinder employee turnover. Businesses are collecting masses of consumer data every day, and this volume is only going to grow, and it is expected to reach 163 Ztabytes by 2025 [3] - marketers may be more aware of consumer behavior than ever before. But it also means the potential for a business to be completely overcrowded and lost in consumers' understanding, especially if there is no clear-cut goal of data analytics in the frame of enterprise strategy.

Today, companies are leveraging data to improve customer experience, open new markets, make employees and processes more productive, and create new sources of competitive advantage - working for the future tomorrow. As businesses enhance their business digitalization and deliver a consistent and better customer experience, consumers are leveraging these personalized, real-time engagement to delivery expectations. As their digital world intersects with their physical reality, they expect to be able to access products and services wherever they are, no matter what connection they have, and from any device. Today, more than 5 billion consumers interact with data daily, by 2025 that number will be 6 billion, or 75% of the world population. In 2025, each connected person will have at least one interaction with the data in 18 seconds [3]. Data helps startups to enter new markets, better serve existing customers, streamline operations, and monetize raw and analyzed data.

An investor always evaluates three key parameters: income, risk and time, a venture investor is not an exception, although he is accustomed to taking greater risks, startup founders need to be knowledgeable and able to use marketing strategy tools. The presentation of the project should be supported by both marketing research and expert conclusions. Because startups themselves are not provided with assets that may be of interest to investors, they are not liquid.

Entering the other markets, it is necessary to take into account cross-cultural differences, for example by using Hofstede's cultural dimension model as a tool. The biggest problem for the launch of Ukrainian startups is the availability of many substitute products, one of the fails which could have been prevented by preliminary analysis of the micromarketing environment, namely competitors. In the age of digitization, you can check online, for example, in the Crunchbase database [2]. If the idea of a startup is monetized only on a scale, then it is necessary to go to Silicon Valley. There is not enough venture capital in the UK and EU to inject capital into unproven R&D concepts. If you want to get venture capital investments in the UK, find a way to have some revenue from "the first day". Actually, a startup can still use freemium model to sell later.

Thus, the strategy-making industry (companies such as BCG, McKinsey, Bing) is currently about $ 250 billion, although annual growth is only about 3% over the last 5 years [4], it is still flourishing in the corporate format. With regard to start-ups, in the conditions of limited resources, but in the era of digitization, such an algorithm of actions is proposed when creating a market strategy to attract venture investments (Figure 1).

The algorithm is based on the results of conducted research: it was an expert survey; 19 business angels / venture investors / accelerator consultants / venture mentors from Scandinavian countries, European countries, Russia and Ukraine took part in the survey and share their pieces of advice.

Each of the following steps is distinguished in details:

- Pre-strategy – a stage at which to define the classic three C's strategies: consumer, cost and competitors. Analyzing what characteristics of the market you are operating in, what customer needs are being met, and how you can combine that market and those customer needs.

Sometimes companies are unable to attract the necessary venture investments because one of their competitors has already attracted a lot. This was the case for Sidecar, which raised more than $ 35 million dollars for ridesharing and B2B deliver before being forced to sell to GM in 2016. Sidecar were unable to compete against Uber, because Uber have practically limitless capital already [2].

- Market-Fit / Market Opportunity – the stage

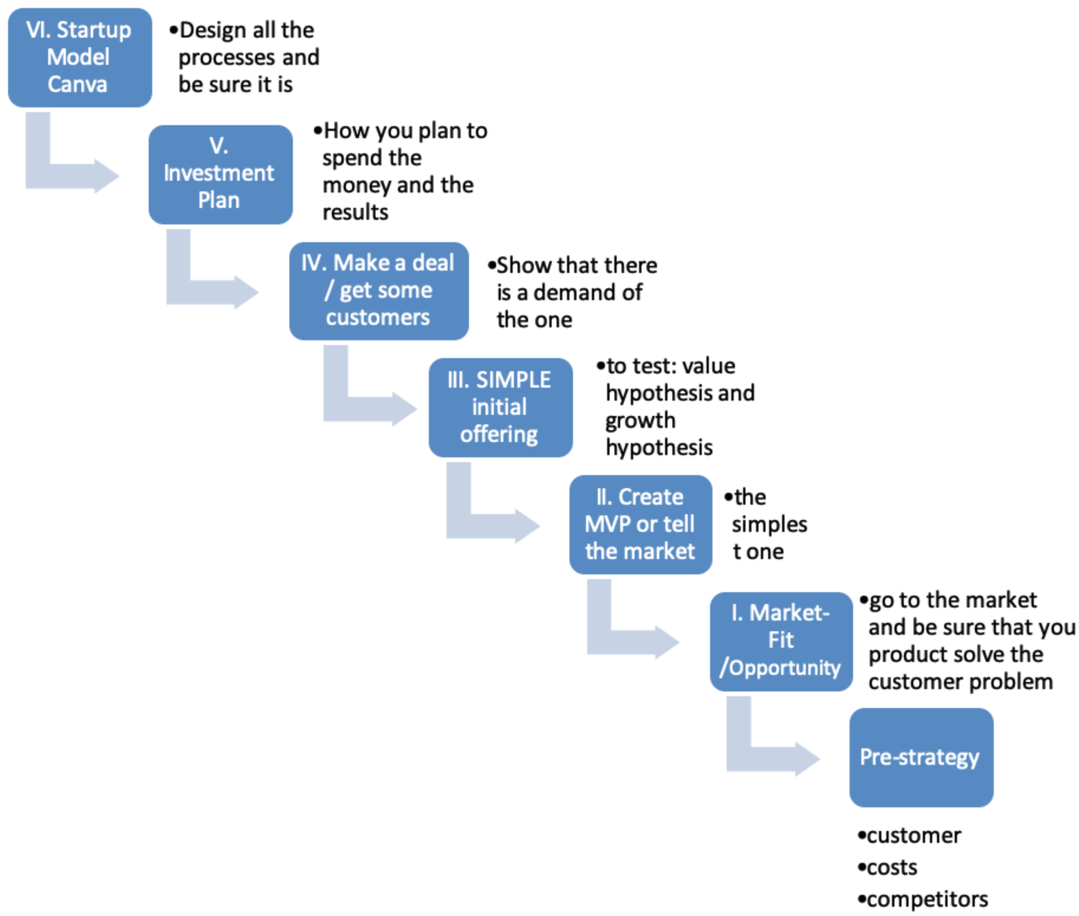

FIGURE 1 Startup Ladder – 7 steps to attract venture capital in the context of marketing strategy
Developed by the authors, based on the previous researches

where you need to understand whether a product will be competitive in one market or another, you can use the following marketing tools here: SWOT, Porter's Five Forces (balance of power in the industry), PEST (Political, Economic, Socio-Cultural and Technological factors) and its different variations - ETPS / STEP / PESTEL / PESTLE, ETOP, also methodology of prof. A. Starostina. This step is a summary of market research that helps a startup to determine if your business idea is profitable and sustainable. It identifies an industry, describes trends, outlines customer / market needs that exist, examines customer behavior, and analyzes competitive prospects in your market.

This makes it possible to support the startup proposal with the market opportunity for the venture investor. This analysis gives a basic explaination how you can align your strengths with the opportunities available and what contingencies startuo should be prepared to address with existing weaknesses and threats.

- Create MVP or tell the market about – the creation of a minimal viable product, without additional features, that solves the problem of the product consumer, or this step may be the process of forming an information field around the startup's products to understand whether it will be in demand.
- SIMPLE initial offering – consider using USP-analysis at this point to determine your competitive position - how does the startup offer a product or service different enough to persuade customers to buy from exactly this startup, rather than those already established competitors, if the startup already has competitors.

In the age of digitization, public opinion leaders (bloggers) have become prominent in the marketing environment, and over the past few years their influence has grown exponentially. Trends such as the move to mobile have made traditional advertising strategies (such as television advertising and magazines) less effective at attracting young customers.

- Make a deal / get some customers – understanding the target audience of a startup and being able to attract their attention and turn them into potential customers and ultimately retain clients is one of the most important skills of a successful business, to understand how to formulate a product promotion strategy in a "prospect-lead-customer" format. A potential investor should see that the demand for startup products exists in the market and there are already buyers who are ready to become consumers.

Psychography is a consumer research based on their activities, interests and opinions (marketers call it "AIOs"). This goes beyond classifying people based on general demographics data, such as age, gender, or nationality. Psychography focuses on understanding cognitive attributes, such as client emotions, values, and attitudes, among other psychological factors (such as the OCEAN model).

- Marketers, advertisers, and researchers use this approach to create "psychographic profiles" of consumers. These profiles help researchers understand the motivations and opinions of consumers, which can assist to promotion tactics and provide campaigns with clearer market strategy. Using this information, brands can change messages and brand tone accordingly.
- Investment Plan – finalizing stage of the analysis should be a roadmap to choosing and implementing the changes to be made, a very thorough description for what the startup need funds and what results will it lead to. Project performance metrics should be used.
- Startup Model Canva – startup market analysis data can now be used to shape the viable marketing strategy in a startup business-model and determine how the startup will sell the products, to whom and to what extent potentially. The final step will be helpful to make sure that the startup can generate returns for the investor.

Therefore, models such as SWOT-analysis, PEST-analysis, and Porter's five forces are used to formulate the overall strategy. Models that allow to identify competitive advantage: four Porter angles, Porter's overall strategies, and USP analysis. Models that allow you to develop marketing strategies include customer journey mapping, Maslow's pyramid of needs, the Rogers diffusion curve, and the 4P, 5P, 7P marketing mix concepts, and so on. It is important to understand that models cannot be used mechanically; all models require adaptation to a specific company or a strategic business unit.

In the general algorithm for creating a marketing strategy, the first step will be determining the place of the company in the ecosystem today - the state of the company. Situation analysis identifies trends, opportunities, threats, and success factors that shape the startup environment. In the first phase, a startup can use tools such as PEST-analysis, SWOT-analysis, or Porter's five forces to systematize and identify industry trends that may affect an enterprise. Porter's five forces model will help identify who is more powerful in a particular market: a company, suppliers, consumers, or competitors to develop a feasible market strategy.

VRIO analysis should also be added as a part of the first step in the ladder, if you want to determine the potential and effectiveness of the startup's own resources, both physical assets and processes.

- One of the key threats to startups is not to evaluate where leads and sales are coming from, and not to track your return on investment for marketing activities (ROMI). Startups today have digital tools for fast, easy and cheap performance tracking – what a startup measures can be also managed; to know what is losing and what is winning, a startup needs to monitor and measure, so the control function will be always the final step in the strategy.

Venture seed-stage financing is a vital step for many growing startups, the features of which have been revealed in the paper. However, venture agreements are now being hit during the coronavirus epidemic - decline by 22% in Q1 2020 compared to Q4 2019 is been forecasting [5]. This is due to a complication of economic factors - including uncertainty due to the spread of coronavirus. Investments from large venture funds are shrinking as they focus on managing existing portfolio companies, not currently looking for new investment opportunities. Thus, having a clear and well-defined startup strategy in an uncertain environment is particularly important. As stock prices fall, investors of all types seeking to protect their returns may shift to more secure assets, such as bonds, gold, or later-stage companies investment.

4 Conclusions

This chain of facts can easily bring us to the conclusion that nowadays every startup should build up a feasible and clear marketing strategy to be competitive on the venture capital market. Only on condition of step by step strategy startup may attract venture investment in the age of digitalization, because a bunch of startups appears every day, but just a few of them have viable market-fit product. The objective of the paper was to prove that traditional marketing instrument can be adopted and helpful to create consistent startup model to attract venture investors. To conclude, following steps were formed and explained with the aim to attract venture funds: pre-strategy, market-fit check, MVP creation, simple initial offering forming, customer getting, investment plan and performance metrics, startup-model canva and effectiveness control. All these steps will help a startup to get a roadmap to choosing and implementing the changes to be made and investments to be attracted. Thus, such a "Startup Ladder – 7 steps to attract venture capital" solves the most widespread problems of a startup failure from lack of product-market fit, running out of cash, getting outcompeted, pricing / cost issues, absence of business model, poor marketing, ignoring customers to disharmony on the team.

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